

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 IO-10 SP-02 AID-05 EB-07 NSC-05

RSC-01 CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 DODE-00 PM-03 H-01 L-02 PA-01 PRS-01

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FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 9297

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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PASS TREASURY FOR WIDMAN, PASS FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

REF: ROME 1017 OF 23 JANUARY 1975

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1. SUMMARY. BANK OF ITALY HAS HAD TO INTERVENE FAIRLY

HEAVILY IN SUPPORT OF LIRA THROUGHOUT JANUARY. PRELIMINARY MONETARY MOVEMENTS DATA SHOW BALANCE OF PAYMENTS DEFICIT OF \$187 IN FIRST TWO WEEKS OF 1975, I.E., CONSISTENT WITH BANK OF ITALY ESTIMATE OF \$5 BILLION CURRENT ACCOUNT DEFICIT FOR 1975. LIRA HAS STRENGTHENED AGAINST WEAK DOLLAR IN EXCHANGE MARKETS. END SUMMARY

2. HEAD OF EXCHANGE OPERATIONS AT BANK OF ITALY ERCOLANI TOLD TREASATT JANUARY 30 THAT BOI HAS HAD TO INTERVENE FAIRLY HEAVILY THROUGHOUT JANUARY IN SUPPORT OF LIRA, WITH INTERVENTION FLUCTUATING RATHER WIDELY FROM DAY TO DAY. PRELIMINARY DATA FOR FIRST 15 DAYS OF JANUARY SHOW NET MARKET INTERVENTION OF \$224 MILLION. INTERVENTION CONTINUED IN SECOND HALF OF MONTH. FOR EXAMPLE, ON JANUARY 29 BOI LOST \$90 MILLION, BUT IT RECOUPED \$70 MILLION ON JANUARY 30.

3. MONETARY MOVEMENTS DATA SHOW OVERALL DEFICIT OF \$187 MILLION IN FIRST HALF OF MONTH, AS REFLECTED IN DECLINES IN OFFICIAL/FOREIGN EXCHANGE HOLDINGS OF \$272 AND IN SDR'S OF \$2 MILLION, AS WELL AS IN RISE IN OFFICIAL SHORT-TERM LIABILITIES OF \$5 MILLION AND WORSENING IN NET OFFICIAL MEDIUM AND LONG-TERM POSITION OF \$4 MILLION. FIGURES SUGGEST THAT END-YEAR WINDOW DRESSING BY COMMERCIAL BANKS (WHICH INCREASED BANKS' NET FOREIGN BORROWING IN LAST TWO WEEKS OF 1974 BY \$180 MILLION) WAS REVERSED IN FIRST HALF JANUARY, WHEN BANKS REDUCED NET FOREIGN DEBTS BY \$96 MILLION. ERCOLANI POINTED OUT THAT JANUARY IS SEASONALLY WEAK PERIOD OF ITALIAN BALANCE OF PAYMENTS, SO THAT APPARENT OVERALL DEFICIT ON ORDER OF \$350-400 MILLION FOR MONTH WOULD BE EVEN LESS THAN ANTICIPATED RATE OF DEFICIT EXPECTED IN LINE WITH BOI ESTIMATE OF TOTAL CURRENT ACCOUNT DEFICIT OF \$5 BILLION IN 1975.

4. ERCOLANI MENTIONED THAT BOI HAD BEEN SOMEWHAT SURPRISED AT RECENT APPROACH BY PROPOSED LEADING UNDERWRITER OF \$200 MILLION STATE RAILWAYS EUROMARKET TERM LOAN. UNDERWRITER INDICATED THAT IT WAS STILL INTERESTED IN ATTEMPTING TO GO AHEAD WITH PLACEMENT OF LOAN, WHICH HAD ORIGINALLY BEEN DISCUSSED SOME MONTHS AGO AND THEN ABANDONED WHEN MARKET FOR ITALIAN LOANS DRIED UP. ERCOLANI SAID THAT BOI HAD NOT CONTEMPLATED RESORT TO EUROMARKET IN 1975, IN VIEW OF ADVERSE MARKET LIMITED OFFICIAL USE

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CONDITIONS. HOWEVER, HE WONDERED WHETHER THIS APPROACH MIGHT BE SYMTOMATIC OF IMPROVED POSSIBILITIES FOR TAPPING THE MARKET.

5. OFFICIAL LIRA/DOLLAR EXCHANGE RATE ON JANUARY 30 WAS 639.52 LIRE PER DOLLAR. THREE-MONTH FORWARD RATE WAS 650.77 LIRE. BLACK MARKET RATE IN MILAN WAS 668 LIRE PER DOLLAR. BOI WEIGHTED AVERAGE EXCHANGE RATE SHOWED 21.83 PERCENT DEVALUATION OF LIRA ON JANUARY 30 COMPARED TO FEBRUARY 9, 1973 BASE

PERIOD. FOLLOWING BANK CARTEL AGREEMENT (REFTEL) INTERBANK
INTEREST RATES WERE 14.0625 PERCENT AT 48 HOURS, 14.25 PERCENT
AT 1, 2 AND 3-MONTH MATURITIES, AND 14.50 PERCENT AT 6 MONTHS.
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